BILL # SB 1256

TITLE: telecommunications companies; property tax valuation

SPONSOR: Martin

STATUS: As Introduced

REQUESTED BY: Senate

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

Under current statutes, personal property of telecommunications companies valued by the Department of Revenue (DOR) depreciates to 20% of its original cost. This bill would reduce the minimum value (or "valuation floor") of such property from 20% to 10% for tax year 2005 and further reduce the floor by 2.5% per year until tax year 2008 when it will be set at 2.5%.

SB 1256 would also require DOR to compute the depreciation of telecommunications' property based on straight line valuation tables.

Estimated Impact

Based on estimates provided by the telecommunications industry, the bill would have a General Fund cost of up to between $4.4 million in FY 2006 and $10.5 million in FY 2009. The bill will reduce statewide net assessed valuation (NAV), which will increase the state's K-12 education formula cost. Beginning in FY 2007, that impact could be offset by reducing the cost of automatic school tax rate reductions that are designed to offset higher assessed value. There will be less of a tax rate reduction since the bill will lower the growth in assessed value. The net General Fund cost after accounting for the school tax rate reductions would be up to $4.6 million in FY 2007 and $4.8 million in FY 2009.

The cost estimates above are based on the expected amount of full cash value that would be foregone under SB 1256, as determined by industry representatives. DOR estimates were lower than those provided by the industry. The JLBC Staff does not have an independent means of determining the valuation of these particular properties.

Analysis

Compared to current law, industry representatives estimate that SB 1256 will reduce the full cash value of telecommunications property by $(445) million in tax year 2005, $(637) million in tax year 2006, $(861) million in tax year 2007, and $(1.1) billion in tax year 2008. Since telecommunications property is assessed at 25% of full cash value, the corresponding NAV reductions under this bill would be $(111) million in tax year 2005, $(159) million in tax year 2006, $(215) million in tax year 2007, and $(264) million in tax year 2008. By comparison, DOR estimates the NAV loss under this bill to be $(88) million in tax year 2005, $(108) million in tax year 2006, $(127) million in tax year 2007, and $(147) million in tax year 2008.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays 35% of residential property taxes through the Department of Education's Homeowner's Rebate program. While SB 1256 will not affect residential property valuation, it will impact the school tax rate (QTR) set after FY 2006. By reducing NAV by $(111) million in tax year 2005, the bill will result in a direct increase of the state share of K-12 funding by $4.4 million in FY 2006. This impact grows to $10.5 million by FY 2009. This estimate includes the net impact of both Basic State Aid and the Homeowner's Rebate.

The NAV reductions under SB 1256 will also generate savings in the cost of the state's Truth in Taxation (TNT) program. TNT reduces the QTR and county equalization tax rate to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2006, however, the TNT rates have already been established and would therefore not be affected by the tax year 2005 NAV reduction under this bill. For this reason, there would be no offsetting TNT saving in FY 2006.

Analysis (Cont'd)

For FY 2007, the school tax rate is expected to be reduced by 12.7¢ under existing statutes. However, the lower NAV under SB 1256 would result in the tax rate reduction being 0.3¢ less than under current law. The higher QTR under the bill will reduce the net General Fund cost increase from $6.3 million to $4.6 million in FY 2007, which constitutes a TNT saving of $(1.7) million.

The proposal will also affect state General Fund revenues. Although the state property tax was repealed in 1996, the General Fund still receives property tax revenues from unorganized districts and school districts that levy the minimum qualifying tax rate. The impact on state revenues could not be determined but is expected to be small.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, the JLBC Staff estimates that the cost to the General Fund will be about $4.4 million in FY 2006, $6.3 million in FY 2007, $8.6 million in FY 2008, and $10.5 million in FY 2009. If the QTR is adjusted to account for TNT, however, the bill would have a General Fund cost of $4.4 million in FY 2006, $4.6 million in FY 2007, $4.8 million in FY 2008, and $4.8 million in FY 2009.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

3/18/05